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C O N F I D E N T I A L SECTION 01 OF 03 BEIJING 023353

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DEPT FOR SCA, EAP/CM AND INR (FOR G. KNIGHT)

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TAGS: [PREL](#) [ENRG](#) [PTER](#) [ZK](#) [RS](#) [CH](#) [IR](#)

SUBJECT: SCHOLARS SAY SCO EXPANSION, IRANIAN MEMBERSHIP,
GREATER ENERGY ROLE POSSIBLE BY NEXT YEAR

REF: A. BEIJING 9673

[1](#)B. BEIJING 20105

Classified By: Political Minister Counselor Daniel Shields.
Reasons 1.4 (b/d)

Summary

[1](#)1. (C) Chinese scholars say that by 2007 the Shanghai Cooperation Organization (SCO) could be in a position to accept new permanent and observer members and will further establish a framework to address economic development, good governance and energy issues in Central Asia. Iran could become a permanent member of the organization next year, scholars told us, although an MFA official was more cautious about the pace of SCO expansion. SCO activities will likely include joint military exercises and establishment of an "Energy Club" among SCO members. China will place priority on economic and infrastructure development in Central Asia as a way of promoting stability while protecting security and preventing terrorism. China continues to voice willingness to defer to Russia in the region but notes that Russia may fear China's expanded influence and see Central Asia as a competitor for meeting China's energy needs. Finally, Beijing is suspicious of what it sees as U.S. support for destabilizing "color revolutions." End Summary.

[1](#)2. (C) Chinese officials and academics say the Shanghai Cooperation Organization (SCO) hopes to have a framework in place by next year that would allow the SCO to accept new permanent and observer members. Iran could become a permanent member next year if newly drafted regulations for expanding SCO's permanent and observer members are adopted, scholar Wang Lijiu of the State Security-affiliated China Institute of Contemporary International Relations (CICIR) recently told visiting EAP analysts Sam Chernawski and David Longenecker. MFA Deputy Director for SCO Affairs Wang Wenli said Iran and Pakistan have applied for permanent SCO membership, but that the process was not likely to be completed by 2007. In its 2007 leaders meeting, the SCO will likely ratify the newly drafted regulations but would take on new members only after careful deliberation, she said. Noting Ref A discussions with U.S. officials, MFA's Wang said China is aware of U.S. concerns about SCO expansion to include Iran and is taking a "measured" approach.

Iran a "Natural Fit" to Join SCO, Scholar

[1](#)3. (C) It would be "natural fit" for Iran to join SCO as a permanent member given its historical, political and economic

influence in the region, CICIR scholar Wang said. At the July and September summits, the SCO delegated to SCO Secretary General Zhang Deguang authority to establish a

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legal framework to allow for new permanent and observer members. The SCO is an "open" organization, he said, and the frameworks developed should provide an opportunity not only for Iran but perhaps also for the SCO's three other observer members to become permanent members. The SCO has contemplated creating some form of dialogue partner status for the United States, the European Union and other groups outside the region, he said, but is unlikely to put a high priority on expansion by non-permanent members outside Central Asia in order to maintain the SCO's regional focus.

Energy Club Likely To Win PRC Support

¶4. (C) China continues to seriously consider the Russian proposal from the July SCO Summit to establish a separate "Energy Club" of SCO members by 2008, Assistant to SCO Secretary General Du Wei told visiting INR analyst Greg

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Knight. It remains unclear what form the energy cooperation will take, but MFA's Wang said China envisions a club that governments, private companies and think tanks might join which would conduct joint research and policy formulation. The Energy Club would be a more vigorous institution than the current SCO expert-level energy working group, she said.

¶5. (C) CICIR's Wang advocates a dialogue between energy producers and consumers that might later be replicated on a larger, even global, level to improve coordination and help stabilize the global energy market. China and Russia agree on most bilateral issues, CICIR's Wang said, and both see the proposed SCO "Energy Club" as a friendly vehicle through which differences between energy exporters and importers

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could be discussed and resolved.

¶6. (C) Xia Yishan of the MFA-affiliated China Institute for International Studies (CIIS), a consultant in the SCO's formation, told poloff that energy is the field where divergence of Chinese and Russian interests with respect to Central Asia is most likely. China would prefer bilateral energy cooperation with Central Asian states, such as a pipeline from Kazakhstan, with those channels only later opening to Russia, he said. Russia wants to maintain "bottleneck" control of the ability to transfer Central Asian oil and gas to Europe and former Japanese PM Koizumi's August trip to Central Asia added to concerns about competition over the region's natural resources, Xia said. Russia also sees Central Asian states, specifically Kazakhstan and Turkmenistan, as competitors for serving China's growing energy market, he said. As a result, SCO members may begin discussing energy cooperation, but Xia found it unlikely that a SCO energy pipeline or corridor would be established anytime soon.

Economics, Governance On Par With Security Issues?

¶7. (C) China believes it must foster economic development in Central Asia in order to create a more secure environment because economic backwardness contributes to instability, according to both the MFA's Wang and CICIR's Wang. Applying President Hu Jintao's "harmonious world" philosophy to the region, China supported economic development projects in Central Asia, including several announced at the September SCO Prime Minister's meeting, according to CIIS' Xia. At the September meeting (ref B), China announced support for large development grants, extension of electrical grids, construction of a road and transport corridor and many other

infrastructure projects, Xia said. These projects are funded by a \$900 million Chinese loan and by \$720 million funded by central banks in the region which aims to become a SCO interbank network, Du said.

18. (C) The SCO continues to expand from its origin as a regional security and terrorism prevention network to address good governance, law enforcement and other fields, Du said. March Uzbek-Kyrgyz border exercises, August military exercises involving Kazakhstan and China, and September anti-terrorism exercises in Tajikistan conducted under SCO auspices show that the SCO's framework for enhancing military cooperation is complete, Du said. MFA's Wang said the joint exercises conducted this year focused on law enforcement aspects of counter-terrorism and counter-narcotics, often involving police forces. An anti-terrorism military exercise slated to be held in the Russian Far East during the first half of 2007 will be coordinated by defense ministries and will be of much larger scale than this year's exercises, she said.

19. (C) SCO leaders emphasized their interest in focusing on transportation and energy during their September meetings, but MFA's Wang said the SCO has no overall plan that guides recent, spontaneous ministry-to-ministry exchanges in other areas. Cooperation among SCO ministers in governance and cultural aspects has expanded greatly, she said. In September, China hosted a meeting of SCO Supreme Court Presidents, while in October SCO Education Ministers exchanged ideas at a session held in Beijing. Prosecutors, customs officials, culture ministers and the heads of environmental protection agencies from SCO nations also met in China in recent months, the SCO Secretariat's Du said.

China Lets Russia Take Lead But Expands Own Network

10. (C) Du disputes the premise that China is becoming a monopolistic leader within the SCO. While China's fast economic development is obvious and has become a model for some Central Asian countries to emulate, Du said the SCO's emphasis on consensus decision-making prevents China or Russia from dominating the organization's deliberations. Moreover, China continues to defer significantly to Russia on relations with Central Asian states. China knows that it cannot compete with personal relationships between Russian and Central Asian leaders that were built up over decades, Du said. Renmin University Dean for international political economy Zha Daojiong noted that China was initially interested in donating more than \$900 million to Central Asia this year for bilateral infrastructure projects. But after scholars raised possible concern that Russia would view a

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larger donation as too aggressive and threatening to its regional interest, the Chinese government cut back its proposed contribution, Zha and CIIS' Xia separately told us. China has no intent to challenge Russian influence, Xia said, but cannot exclude the possibility that Russia is concerned about an expansion of China's relations in Central Asia.

Color Revolutions Destabilizing, Scholars Say

11. (C) Changes of government are destabilizing in Central Asia, Xia told poloff. China believes strong leaders in Central Asia are necessary to control the risk of Islamic fundamentalism and fears U.S. ideological intentions because future "color revolutions" might increase the chance that Islamic extremists take power, he said. CICIR's Wang also expressed skepticism about U.S. support of "color revolutions" and asked whether the United States places a greater priority on democracy or on regional stability. Visiting EAP officials disputed China's view that stability and democracy are contradictory and emphasized that U.S. policy is designed to support both objectives.

¶12. (C) INR analyst Knight and EAP officials Longenecker and Chernawski, whose meetings contributed to the substance of this message, did not have an opportunity to clear this cable. Randt